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C O N F I D E N T I A L SECTION 01 OF 03 LILONGWE 000022

SIPDIS

DEPT FOR AF/S, AF/EPS, EB/IFD/OMA
TREASURY FOR OASIA
TREASURY PLEASE PASS TO IMF AND WORLD BANK EXEC DIRECTORS
USAID FOR AA/AFR, AFR/DP, AFR/SA

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TAGS: [EFIN](#) [ECON](#) [PGOV](#) [KCOR](#) [EAID](#) [MI](#)
SUBJECT: MALAWI'S PLEA TO THE IMF: SAME OLD DOG, SAME OLD TRICKS

REF: A. 03 LILONGWE 1143

[B](#). 03 LILONGWE 1223
[C](#). 03 LILONGWE 1267
[D](#). 03 LILONGWE 1295

Classified By: P/E Officer Marc Dillard for reasons 1.5 b/d.

Summary

[1](#). (C) Presidential Economic Advisor Goodall Gondwe reportedly met with the Treasury Department in Washington in December to make a pitch for waivers on Malawi's IMF commitments. Contrary to his message, we assess that a lack of political will has caused the GOM's persistently missed fiscal and structural commitments (reftels). Moreover, there are signs that performance on key conditions is deteriorating. With elections coming in May 2004, we believe that messages sent now about the importance of political will and follow-through will determine donor-GOM relations for years to come. Given current performance, we recommend that waivers not be granted, particularly on structural conditions. End summary.

Mr. Gondwe Goes to Washington

[2](#). (SBU) In mid-December, we alerted Washington that GOM officials might use planned negotiations at World Bank headquarters to make a pitch for waivers to its IMF program conditions (ref D). It has come to our attention that Presidential Economic Advisor Goodall Gondwe did exactly that on December 22, approaching the Treasury Department with an appeal for support ahead of a potential February review.

[3](#). (SBU) Gondwe reportedly argued that IMF engagement is especially necessary ahead of upcoming May elections, that fiscal slippages are largely the result of IMF miscalculations and delays in donor disbursements, and that the GOM is making significant progress on missed structural conditions. We disagree.

GOM Performance on Fiscal, Monetary Conditions

[4](#). (SBU) Without arguing the details of the GOM's likely failure to meet its most recent fiscal conditions (refs A, B, and C), we note that the GOM has been a serial breaker of its fiscal pledges since the inception of its Poverty Reduction and Growth Facility (PRGF) in December 2000. It was a lack of fiscal discipline that drove Malawi's PRGF off track in 2001, and, while the IMF's underestimation of domestic interest payments will undoubtedly contribute to current expenditure overruns, the pattern of broken promises remains.

[5](#). (SBU) In addition, we note that President Muluzi used the resumption of IMF disbursements in October to announce new spending initiatives (ref B), and that shortly after Christmas he announced that Malawi's 120,000 civil servants would receive an immediate raise along with a second raise in June or July. There is confusion over whether and how the raise might be implemented and its potential fiscal impact is unknown, not least because a contact in the Ministry of Finance has told us the President's announcement caught the Ministry's budget division by surprise. The Secretary of the Treasurer has also stated that the raise has not been contemplated in the revised budget, soon to be presented. The program, however, would clearly run contrary to the GOM's fiscal commitments to the IMF.

Old, New Issues on Structural Conditions

[6](#). (SBU) We continue to see lack of political will within the GOM to adhere to its structural conditions under the PRGF. Two missed conditions, in particular, have come to be considered by several key donors as measures of the government's commitment to reform: 1) a requirement that an amendment to the Corrupt Practices Act be submitted to Parliament to allow the Anti-Corruption Bureau to prosecute cases without prior approval from the politically appointed Director of Public Prosecutions (DPP); and 2) a requirement that a complete audit of domestic arrears be conducted.

Substantial progress has been made on neither.

17. (SBU) On the anti-corruption amendment, the GOM has advanced the weak argument that the legislation was not introduced to Parliament (as had been promised only weeks before the session) because checks and balances are needed to prevent politically-motivated prosecutions. What, then, we have asked our interlocutors, is the judicial branch for? The issue of anti-corruption in Malawi is not about checks and balances. It is about the GOM's credibility, which is now extremely low, as the prosecutions of several Cabinet and senior ruling party members have been quietly blocked under the current legislative formulation (ref D). As one Anti-Corruption Bureau official recently told the Embassy, "The only time we get to act is when a Minister involved falls out of government." As noted in ref D, in four weeks of Parliament in November and December (and a special one-day session convened on December 30), the GOM refused to let the anti-corruption legislation be brought to the floor for debate.

18. (SBU) GOM performance on the arrears audit has involved similar foot-dragging. Though first introduced as a requirement of the EU's bilateral program in 2001, the audit's most recent deadline was completion by December 2003. According to the local EU office, which will fund the audit, the contract -- as prepared by the EU in July 2003 -- may (if all goes well) be signed this week.

19. (SBU) Even if the audit contract is signed, our EU contact stated that the audit may not proceed, because there are indications that the GOM may have changed the audit contract's terms of reference since the EU completed the tender process in July 2003. If those terms have changed significantly in the six months the GOM has spent signing the contract with KPMG, the EU will be required to re-tender the contract by its own transparency regulations, delaying the audit's start again. The EU is having an internal discussion about holding back bilateral support tied to the audit until the actual auditing has begun, he stated.

110. (SBU) Asked for his assessment of the GOM's intentions on the contract, our EU interlocutor stated that it was originally thought that the delays were the result of incompetence and mismanagement. Now, however, he stated that, "personally," he believed they were "just buying time." "We all expect arrears to be a problem...perhaps in the billions of kwacha."

Analysis and Recommendation

111. (C) Just as on fiscal matters, the GOM's performance on structural criteria has been lacking and shows signs of going in the wrong direction. A third (not yet much talked about) structural condition, for the Anti-Corruption Bureau (ACB) to release a report on potential corruption involving the National Food Reserve Agency, was due at the end of December and apparently needs to be added to the list of missed conditions. The Attorney General is reportedly implicated, and one ACB official openly worried to us that the report will be buried. Moreover, the Deputy Director of the ACB's contract has not been renewed. When the ACB gets aggressive with politicians, our contact continued on to say, "they come back and fire us." GOM credibility on its anti-corruption efforts -- and by extension its performance on structural reform -- deteriorates all the while.

112. (C) It is worthwhile to note that Goodall Gondwe, the GOM's emissary to the Treasury Department, encumbers an advisory position that is funded through a World Bank program. The purpose of his position is to get President Muluzi world-class economic analysis to support performance on Bank and Fund programs. A Malawian, Gondwe formerly worked as the Deputy Director for the Africa Division at the IMF (where the current IMF team leader for Malawi was a subordinate) and he appears to be skillfully working his contacts at the Fund to the GOM's advantage. His messages should be filtered with care: he has stakes with more than one player in this exchange, and he may be angling for a senior administration appointment after May's elections. Shortly after his December message to the Ambassador on the proposed anti-corruption amendment (ref D), we learned that Gondwe had not coordinated with the Attorney General, who had control of the legislation, and that the "GOM" opinion he presented was fragmented among senior administration members.

113. (C) Gondwe was right about one thing: now is a critical juncture for Malawi. May's elections will usher in a new administration, and the messages the IMF sends today about the necessity to follow through on commitments will set the tone for donor-GOM relations for years to come. The governing elite in Malawi is very small, and today's and tomorrow's bureaucrats and politicians are drawing lessons from this episode. We believe that medium- to long-term Malawian performance -- on a range of bilateral and multilateral issues -- hinges on the country's leadership learning to take

responsibility for itself. Given current GOM performance, we therefore advise against granting waivers for repeated broken promises, particularly on structural conditions.

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